

**From:** Michael Murphy <[REDACTED]@google.com>  
**To:** Philipp Schindler <[REDACTED]@google.com>  
**Subject:** Re: [BC Approval Required] URGENT: Epic Games  
**Cc:** Christian Cramer <[REDACTED]@google.com>, Cristina Bita <[REDACTED]@google.com>, Dan Walker <[REDACTED]@google.com>, Deal\_review <[REDACTED]@google.com>, Donald Harrison <[REDACTED]@google.com>, Halimah DeLaine Prado <[REDACTED]@google.com>, Hiroshi Lockheimer <[REDACTED]@google.com>, Jae Jung <[REDACTED]@google.com>, Jamie Rosenberg <[REDACTED]@google.com>, Jerry Dischler <[REDACTED]@google.com>, Joan Braddi <[REDACTED]@google.com>, Kate Lee <[REDACTED]@google.com>, Kelly Merryman <[REDACTED]@google.com>, Kent Walker <[REDACTED]@google.com>, Kristin Reinke <[REDACTED]@google.com>, Micah Baker <[REDACTED]@google.com>, Momar Sock <[REDACTED]@google.com>, Phil Harrison <[REDACTED]@google.com>, Purnima Kochikar <[REDACTED]@google.com>, Robert Kyncl <[REDACTED]@google.com>, Ruth Porat <[REDACTED]@google.com>, Shafiq Ahmed <[REDACTED]@google.com>, Sridhar Ramaswamy <[REDACTED]@google.com>, Tariq Shaukat <[REDACTED]@google.com>, Tia Arzu <[REDACTED]@google.com>, Tian Lim <[REDACTED]@google.com>, Tom Jurewicz <[REDACTED]@google.com>

Thank you, Philipp and Sridhar

Thank you as well, Shafiq

We'll close this gating action. This finalizes the BC's approval.

Best regards,  
Mike



On Sat, Jul 21, 2018 at 03:51 Philipp Schindler <[REDACTED]@google.com> wrote:

Very clear, thank you. I approve.

Philipp

On Sat, Jul 21, 2018, 7:58 AM Shafiq Ahmed <[REDACTED]@google.com> wrote:

Hi Philipp - please see answers to your questions below.

**1) Regarding the \$310m (130m+180m) revenue at risk through 2021 please see here the key assumptions:**

**For \$130M we calculated the direct revenue forgone if Fortnite is not on Play as follows:**

- Use as a best proxy for mobile revenue potential, the revenue Fortnite has been generating on iOS since launch at the end of March, including factoring shifts in trend.
- Factor typical Android vs. iOS game monetization multiple based on similar genre games and top markets currently for Fortnite (ranged at 70-80%).
- Factor in the limited # of devices capable of running the game on Android based on the revenue distribution of comparable games and ramp that up over time as additional Android devices are able to run the game (ramping from 40-70%). As this is a high fidelity game it is better suited for higher end devices vs. the full suite of Android specs.
- Project future decay curve of potentially comparable-game life cycle patterns over the next three years (100% → 50% by year 3).

**For the \$180M “Powerful and well positioned developers able to go on their own”:**

- Consider a set of 4 likely developers who have established customer relationships, brand recognition, payments know-how, and content/IP strength to have a reasonable chance to be successful on Android without launching on Play.
- Quantify specific existing titles the developers have on Android currently or that are in the pipeline based on Developer BD teams insights. Size revenue opportunity based on comparable titles.
- The result is the max at risk for this contagion (\$600M).
- Multiply by the probability that these developers would actually choose not to launch on Play (30%) to get the expected loss (\$180M). Probability factor was based on discussions with BD and their close

understanding of the developers, their drivers and capabilities along with the understanding that it is not a simple process to expect to "sideload" on Android and expect to monetize at the same levels of that through Play.

As you can imagine, predicting how this new hit title plays out is challenging and ones that we heavily debated with the respected teams where there was not a clear proxy/data to support the assumption and thereby also utilized a risk weighted approach to help identify range variability.

## 2) For your second question as to what's the Play store rev share if we can get to the deal with them?

The key premise of this proposal is that we would protect the rev share terms and hold them at the 70/30 split in line with our current business model to ensure we don't establish a precedent that puts at risk our broader ecosystem. Based on the investment proposal of providing them inherent value of ~\$208M in value we would effectively be giving up an amount greater than our direct rev share of \$130M or a yield of 5% rev share if the higher end of the revenue range (\$250M) were to materialize. The reason to be willing to provide value greater than expected rev share is to hedge against the further downside risk of contagion to the next likely set of developers but not breach current economics thereby limiting the investment proposal.

Hope this helps and please let me know if you would like to discuss further.

Shafiq

On Fri, Jul 20, 2018 at 2:21 PM, Michael Murphy <[REDACTED]@google.com> wrote:

+deal team (bcc'd on original email so dropped off - apologies)

Hi team,

Sridhar has approved the Epic deal, and Philipp has a followup question (please see below).

Best regards,

Mike

On Fri, Jul 20, 2018 at 6:23 AM Philipp Schindler <[REDACTED]@google.com> wrote:

What are the key assumptions underlying the \$310m (130m+180m) rev risk until 2021?  
Also: What's the exact Play store rev share if we can get to the deal with them?

Thanks

Philipp

On Fri, Jul 20, 2018, 6:22 AM Sridhar Ramaswamy <[REDACTED]@google.com> wrote:

I am supportive of the immediate effort w/Epic. The broader opportunities (w/Yeti etc.) warrant further detailed discussion.

On Thu, Jul 19, 2018 at 4:28 PM Michael Murphy <[REDACTED]@google.com> wrote:

Hi Philipp and Sridhar/Jerry,

Today at an off-cycle BC meeting, we reviewed a proposed cross-PA partnership with game developer, Epic. The proposal was approved by Ruth and Kent, who were present in the meeting (with some guidance and conditions noted below).

The notes and outcome of the discussion are shared below, and the team is copied in the event you have any questions or concerns. Sridhar or Jerry - you may choose to approve or abstain given the proposal's scope (P&E, HW, YT, Cloud) and documented support from relevant PA leads.

Best regards,

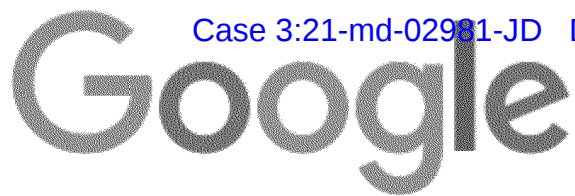
Mike

**Epic / Fortnite (Materials) (Deck)**

- **Reason for BC Review:** First of Kind
- **Ask for BC:** Custom, cross-PA partnership with Epic Games worth up to \$208M (incremental cost to Google of \$147M) over 3 years, including:
  - Commercial support of Fortnite brand (\$90M value; \$85M cost): Fortnite Tournament Sponsorship for YT and organization of Fortnite YT events
  - Broader support of developer ecosystem (\$41M value; \$27M cost): Co-investment to support smaller developers (grants for game development work, content initiatives on YT, and technical and design training for Android Gaming) and build open source industry game services
  - Deeper partnerships with Unreal Engine (UE) (\$77M value; \$35M cost): Sign GCP Reseller deal & offer GCP/PSO credits, and acquire UE licenses for Yeti
- **Deal Representatives:**
  - Hiroshi Lockheimer (SVP, Platforms & Ecosystems)
  - Jamie Rosenberg (VP, Android & Play Business)
  - Momar Sock (Manager, Platforms & Ecosystems Strategy)
  - Phil Harrison (VP & General Manager, Hardware)
  - Tariq Shaukat (President, Partners & Industry Platforms)
  - Kelly Merryman (VP, Content Partnerships)
  - Tia Arzu (Legal Counsel)
- **Outcome:** Approved with gating Als
- **Actions:**
  - **AI:** Approval by Sridhar Ramaswamy and Philipp Schindler required; Compliance to facilitate
  - **AI:** Google CEO approval is required if total commercial commitment value exceeds \$150M, and Audit Committee approval is required if value exceeds \$250M; Compliance to facilitate approvals as needed
  - **AI:** Team is approved to offer proposed terms and to engage in exploratory discussions regarding broader Yeti partnership as necessary, but must return to BC for approval on final terms before entering binding commitment
  - **AI:** BC approval assumes HC and funding resources will be agreed and allocated by relevant PA leads from existing resources for current year and included in annual planning for future years
- **Discussion:**
  - **Fortnite is a special game:** unique game that has transcended normal gaming habits (2% of world has played it and are less than halfway through); represents a new category offering a multiplayer experience with enduring appeal to mass audiences
  - **Partner statement about ecosystem:** they see opportunity to express frustration closed ecosystems (iOS, consoles) through use of sideloading on Android to distribute via their website, threatening Play revenue (\$130M directly) and broader business model
  - **Sideloading opens security risk:** users must allow unknown sources, putting either the whole device (if older) or the browser (if newer) at increased risk for nefarious activity; however, current regulatory environment and long policy implementation timeline limit options to discourage sideloading
  - **High risk of contagion:** Tencent is an investor in Epic and in other major game developers, and will have visibility into this deal; high risk that other games seek other distribution channels as well (up to \$310M in revenue at risk)
  - **Risk of precedent:** conversely vs contagion, current or future premium game developers may seek similar favorable terms; however, Fortnite is an unprecedented game and the technical/UI hurdles for users will limit appetite of other developers to seek similar terms
  - **Broader partnership opportunities:** opening to commit Fortnite to Yeti and to evaluate equity investment opportunities; however, these options require further diligence and consideration

- Michael Murphy
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